STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

TESTIMONY PRESENTED TO THE FINANCE, REVENUE, AND BONDING COMMITTEE
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Testimony Opposing Senate Bill 480

AN ACT CONCERNING THE ESTABLISHMENT AND CERTIFICATION OF COMMUNITY DEVELOPMENT CORPORATIONS IN THE STATE

Senator Fonfara, Representative Scanlon, Senator Martin, and Representative Cheeseman, and distinguished members of the Finance, Revenue, and Bonding Committee, thank you for the opportunity to offer testimony on Senate Bill 480, An Act Concerning the Establishment and Certification of Community Development Corporations in the State.

This bill would create another business tax credit on top of the 25+ already existing business tax credits. Although the aggregate cap on the proposed tax credit program would be $5 million, it is another program leveraging state dollars that would also be subject to the tax cut limitations in the ARPA Final Rule as outlined below. Additionally, this program would leverage capital funds through the State Bond Commission in an amount up to $100 million that seems duplicative of initiatives to be supported by last year's Community Investment Fund 2030 program. This bill would also establish the Office of Community Economic Development Assistance within DECD which would require an appropriation for additional staff needed to run this proposed office. For these reasons, I respectfully request that the committee not support this bill.

Due to the fact that this bill would create a new tax credit, I would like to reiterate the testimony I provided in the March 15, 2022, the March 25, 2022, and the March 30, 2022 public hearings before the Finance, Revenue, and Bonding Committee. The State received $2.8 billion pursuant to the American Rescue Plan Act of 2021 (ARPA) from the Coronavirus State Fiscal Recovery Fund (CSFRF). Not only do these funds have specific guidelines on their uses, they also have specific limitations on policies that result in a reduction of revenue. The intent of CSFRF, as expressed by the federal government, is that these funds should be utilized for services rather than to support tax cuts. Federal regulations outline a rather narrow window of potential revenue-reducing policy initiatives through FY 2025, unless the state experiences a significant increase in revenue above a certain threshold, which is classified as "organic growth" in revenues. That narrow window, which is commonly referred to as the "de minimis rule," allows for no more than a one percent revenue reduction, absent organic revenue growth.

The Treasury guidance outlines a process for determining how much we can cut taxes. The Office of Policy and Management's summary of this guidance is below:

1. Step 1 – Identify Tax Cuts – Identify any policies enacted after March 3, 2021, that would result in a reduction of revenue
    a. $67.8 million of revenue-reducing policies were enacted during the 2021 legislative session for FY 2023

2. Step 2 – 1% De Minimis Test – The Final Rule allows revenue-reducing policy changes as long as they are below a 1% de minimis test in each fiscal year. The 1% is based on the inflated baseline (FY 2019) in each fiscal year. The Office of Policy and Management estimates this 1% de minimis amount as follows:
    a. $252.2 million is the 1% de minimis threshold in FY 2023 as of March 11, 2022
    b. This leaves $184.4 million of room for revenue-reducing policies in FY 2023 under the 1% de minimis test

3. Step 3 – Organic Growth / Safe Harbor Test – If revenue changes exceed the level outlined in step 2, at the conclusion of each fiscal year the federal government will compare actual revenue to the (inflated) FY 2019 revenue baseline. If actual revenue is greater than the baseline revenue, organic growth in revenue has occurred and revenue-reducing policies would be allowed up to this level. If actual revenue is less than the inflated FY 2019 baseline, then organic growth has not occurred and the state will be evaluated as using CSFRF dollars to directly or indirectly pay for revenue reducing policies, in violation of Treasury rules, and would be required to return CSFRF grant funds to the federal government.
    a. As of the January 18, 2022 consensus revenue forecast, the Office of Policy and Management estimates the state is $244.8 million below organic growth, utilizing inflation data from March 11, 2022. This means organic growth is not sufficient to cover any revenue-reducing policies.

4. Step 4 – Identify Revenue-Increasing Policies and/or Spending Cuts – If the state is not compliant at step 3 (actual revenue is lower than the inflated FY 2019 baseline), then the state must identify policies that increase revenue and/or reduce spending in an amount equivalent to the total that the state is short for organic growth. If the state is unable to identify these revenue-increasing policies or spending cuts, the state is liable for repaying the federal government the amount that the state is short of organic growth.
    a. $188.8 million of revenue-increasing policies in FY 2023 were enacted in the 2021 legislative session.

I would like to again thank the committee for the opportunity to present this testimony. If I can provide further information, my office will be happy to work with you.